URUGUAY

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Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated) 1/

	1996	1997	1998 2/
Income, Production and Employment:			
Nominal GDP 3/	18.9	20.0	20.7
Real GDP Growth (pct)	5.3	5.0	3.0
GDP Growth by Sector (pct):			
Agriculture	8.6	-1.3	-1.0
Manufacturing	4.0	5.8	2.5
Services	3.7	3.8	3.0
Government	5.0	2.8	N/A
Per Capita GDP (US$)	5,918	6,112	6,300
Labor Force (000s)	1,334	1,376	1,400
Unemployment Rate (pct)	11.9	11.4	10.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	29.4	21.3	15.0
Consumer Price Inflation	24.3	15.2	8.0
Exchange Rate 4/	7.98	9.45	10.55
Balance of Payments and Trade:			
Total Exports FOB 5/	2.5	2.7	2.9
Exports to U.S. (US$ millions)	167	162	150
Total Imports CIF 5/	3.3	3.7	3.9
Imports from U.S. (US$ millions)	398	432	454
Trade Balance 5/	-0.9	-1.0	-1.0
Balance with U.S. (US$ millions)	-231	-270	-304
External Public Debt	5.4	5.5	5.6
Fiscal Deficit/GDP (pct)	1.6	1.4	1.0
Current Account Deficit/GDP (pct)	1.6	1.6	1.8
Debt Service Payments/GDP (pct)	5.1	5.2	5.2
Gold and Foreign Exchange Reserves (net)	2.1	2.2	2.5

Aid from U.S. (US$ millions)	1.44	8.45	2.0
Aid from All Other Sources (US$ millions)	23.3	N/A	N/A

1/ Data in Uruguayan Pesos was converted into U.S. Dollars at the average interbank selling rate for each year.

2/ 1998 figures are all estimates based on available monthly data in October.

3/ GDP at producer price.

4/ Annual average of the interbank floating selling rate. Uruguayan Pesos/US$.

5/ Merchandise trade.

Sources: Uruguayan Central Bank and National Institute of Statistics.

1. General Policy Framework

The historical basis of the Uruguayan economy has been agriculture, particularly livestock production. Agriculture remains important both directly (beef, wool and rice) and indirectly for inputs to other sectors (textiles, leather and meat.) Industry, which has undergone a strong reconversion process fostered by MERCOSUR integration, declined in the early nineties and since 1994 has recovered its growth trend. At present industry accounts for 18 percent of Uruguay's GDP. The service sector, particularly tourism and financial services, dominates the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay's open financial system.

Per capita income of $6,112 for 1997 puts Uruguay in the World Bank's upper-middle income grouping. The UNDP human development report places it among the countries with high human development.

Overall the Uruguayan economy has performed well in recent years under good rates of growth, low budget and current account deficits, and declining inflation rates. The government has given the private sector access to many activities formerly reserved for the state.

In 1997, Uruguay's risk rating for long-term debt issued in foreign currency improved to BBB minus (by Standard & Poor's, Duff & Phelps and Europe's IBCA, and baa3 by Moody's), reaching investment grade status. This status enables U.S. pension funds to invest in Uruguay. As of October 1998, the investment grade status had been ratified by Standard & Poor's and Duff & Phelps. Despite the soundness of its macroeconomic indicators, the Uruguayan economy remains vulnerable to a regional slowdown or crisis.

Trade with neighboring Argentina and Brazil now accounts for almost half of Uruguay's overall trade with the world. The United States is the fourth largest Uruguayan trading partner, after Argentina, Brazil and the European Union. Since 1991, the U.S. has enjoyed a rapidly growing trade surplus with Uruguay. In 1997, the United States bought 6 percent of Uruguay's exports ($162 million) and provided 11.6 percent of the country's imports ($432 million.) Tariff rates have declined to zero percent for most MERCOSUR products. On January 1, 1995, a Common External Tariff (CET) entered into effect on imports from non-MERCOSUR countries, ranging (with some exceptions) between zero and 23 percent.

2. Exchange Rate Policy

The government allows the peso to float against the dollar within a three percent range. The band currently rises by 0.6 percent per month (7.4 percent per year) and the central bank regularly buys and sells dollars to keep the peso's value within the band. The gap between depreciation and inflation was null in 1997, and by September 1998 grew to 0.96 percentage points (on a 12-month basis).

Uruguay's monetary policy is geared at keeping inflation under control, using nominal exchange rate stability as the main instrument. Central bank intervention to defend the currency entails a loss of control over the money supply, limiting the effectiveness of monetary policy that is carried out through the issuance of very short term paper.

Uruguay has no foreign exchange controls. The peso is freely convertible into dollars for transactions and much of the economy is dollarized.

3. Structural Policies

Since 1995, the government of President Julio Maria Sanguinetti has been implementing a three-stage stabilization program consisting of: a) a fiscal adjustment package implemented immediately after he took office (March 1995); b) a medium-term program for government downsizing; and c) a long-term program for social security reform to address one of the main sources of the budget deficit.

The government is slowly eliminating redundant functions and divesting itself of non-essential activities. Central administration reform aims to reduce the number of central government employees by 10,000 out of a total of 232,000, enhance the sector's efficiency and save the government $80 million per year. Almost all levels of government are encouraging the private sector to play a greater role. Many activities, formerly restricted to the state, have been transferred to the private sector under contract, concession or sale. The government ended its insurance and mortgage monopolies in 1995.

Social security reform was also implemented, lowering a structural government deficit in the long-run (prior to the reform the social security deficit amounted to 6 percent of GDP.)

The reform is converting the highly deficit-ridden public system into a solid bifurcated system of public and private providers. The public sector deficit was 1.5 percent of GDP in 1997; as of 1998's first-half, the budget deficit is 0.9 percent (on a 12-month basis), mostly due to the cost of implementing structural reforms.

The inflation rate decreased from 130 percent in 1990 to 15.2 percent in 1997, and the rate for the twelve-month period ending September 1998 had further decreased to 9.98 percent, the lowest rate in four decades. The Ministry of Finance projects five percent inflation for 1999. Price controls are limited to a small set of products and services for public consumption, such as bread, milk, passenger transportation, utilities and fuels. The government relies heavily on consumption taxes (value-added and excise) for its general revenue. Under a law of investment promotion, the government gives tax exemptions to investing firms. There are also incentives for companies which hire young people.

4. Debt Management Policies

As of 1998's first quarter, the Uruguayan external debt was $2.9 billion, 84 percent of which is public. Since 1996, Uruguay has been extending the maturity of its debt. While all the private sector's debt is short-term (one year or less), the public sector's debt has a longer maturity (half of the latter matures after the year 2003). Debt service in 1997 was $1 billion, equivalent to 24 percent of combined merchandise and service exports, and less than 5 percent of GDP.

Total net foreign exchange reserves amounted to $2.2 billion as of September 1998, equivalent to 6.8 months of imports, and enough to cover total external debt service for more than two years. An IMF standby program is in place and a joint agreement with the IMF and the World Bank has been signed to assure funds that would help Uruguay deal with the international financial crisis.

5. Aid

Uruguay receives little non-military aid from the United States. During 1997 Uruguay received $8 million for peacekeeping, training and equipment under the International Military Education and Training Program. Bilateral counter narcotics assistance totaled $150,000 in 1997. A Peace Corps program closed in 1997. Using $6 million from a debt reduction program, the United States Government and the Uruguayan Government jointly manage the Fund of the Americas. This fund redirects to local environmental and child welfare programs funds that would otherwise be owed by the Government of Uruguay to the United States for repayment of official debt. According to the Uruguayan Presidency's Office of Budget and Planning, total estimated aid received from all other sources in 1996 and 1997 amounts to $125 million (the government keeps aid statistics on a two-year basis).

6. Significant Barriers To U.S. Exports

Certain imports require special licenses or customs documents. Among these are pharmaceuticals, some types of medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable products, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat and vehicles. To protect Uruguay's important livestock industry, imports of bull semen and embryos also face certain numerical limitations and must comply with animal health requirements, a process which can take a long time. Bureaucratic delays also add to the cost of imports, although importers report that a "debureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active. There are no serious restrictions on professional services such as law, medicine or accounting. Those from abroad wishing to practice these professions in Uruguay, must prove equivalent credentials to those required of locals. Similarly, travel and ticketing services are unrestricted. A law allowing foreign companies to offer insurance coverage in Uruguay was passed in October 1993.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment areas regarded as strategic require government authorization. These include electricity, hydrocarbons, banking and finance, railroads, strategic minerals, telecommunications and the press. Uruguay has long owned and operated state monopolies in petroleum, rail freight, telephone service and port administration. Passage of port reform legislation in April 1992 allowed for privatization of various port services. The state-owned natural gas company was privatized in late 1994. Cellular telecommunications are operated by both private consortia and the state-owned phone company (ANTEL). Legislation to privatize ANTEL was overturned by referendum in 1992. Several state-owned firms and even city municipalities however, grant the concession of specific services to privately-owned companies.

Government procurement practices are well-defined, transparent and closely followed. Tenders are generally open to all bidders, foreign and domestic. However, a government decree establishes that local products or services of equal quality to, and no more than ten percent more expensive than foreign goods or services, shall be given preference. Among foreign bidders, preference will also be given to those who offer to purchase Uruguayan products. Uruguay has not signed the GATT/WTO government procurement code.

The only exemptions to tariff regulations in the context of anti-dumping legislation are minimum export prices, fixed in relation to international levels and in line with commitments assumed under the WTO. These are applied to neutralize unfair trade practices which threaten to damage national production activity or delay the development of such activities, and are primarily directed at Argentina and Brazil. Minimum export prices have been scheduled to be phased out, but a number are still in effect (textiles, clothing and sugar).

7. Export Subsidies Policies

The government provides a nine percent subsidy to wool fabric and apparel producers using funds from a tax on wool exports. Uruguay is a signatory of the GATT/WTO subsidies code.

8. Protection of U.S. Intellectual Property

Uruguay belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Nairobi Treaty, and the Universal Copyright Convention. In 1998, the U.S. Trade Representative maintained Uruguay on the "Special 301" Other Observations list because of deficiencies in copyright and patent protection.

Uruguay's Intellectual Property Rights (IPR) regime does not yet meet international standards. The most serious deficiency is the specific exclusion of pharmaceuticals and chemical products from patent protection. Public/private sector commissions have been drafting IPR legislation on patents and copyrights to bring Uruguay up to the standards specified in the WTO TRIPS Agreement. Parliament had not approved any of the bills as of December 1998.

Patents: The government does not discriminate between foreign and domestic patent holders. Owners and assignees of foreign patents may register patents in Uruguay, provided application is made within three years of registration in the country of origin. Registered patents are protected for ten years, less the period of protection already enjoyed in the country of origin. Licensing is not mandatory. Pharmaceuticals and chemical products are not patentable.

Trademarks: In 1998, a new bill on trademarks was approved. Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. Protection is afforded for ten years initially and is renewable. Registering a foreign trademark without proving a legal commercial connection with the trademark is no longer a possibility.

Copyright: Uruguay affords copyright protection to, inter alia, books, records, videos, and software. As Uruguay's Copyright Law dates to 1937, the extent to which it protects computer software is subject to judicial interpretation each time a case is presented. Despite legal protection, enforcement of copyrights for software is still weak and pirating of software is estimated at 80 percent. Software suppliers estimated that losses due to piracy were more than $10 million in 1997. According to estimates by the International Intellectual Property Rights Alliance, U.S. copyright-based industries' losses in Uruguay due to piracy were nearly $9 million in 1997.

9. Worker Rights

a. The Right of Association: The constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government or political party control.

b. The Right to Organize and Bargain Collectively: Collective bargaining takes place on a plant-wide or sector-wide basis, with or without government mediation, as the parties wish.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited by law and in practice.

d. Minimum Age for Employment of Children: Children as young as 12 may be employed if they have a work permit. Children under the age of 18 may not perform dangerous, fatiguing, or night work, apart from domestic employment.

e. Acceptable Conditions of Work: There is a legislated monthly minimum wage ($93 as of September, 1998). The standard work week is 48 hours for six days, with overtime compensation. Workers are protected by health and safety standards, which appear to be adhered to in practice.

f. Rights in Sectors with U.S. Investment: Workers in sectors in which there is U.S. investment are provided the same protection as other workers. In many cases, the wages and working conditions for those in U.S.-affiliated industries appear to be better than average.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		197
Food & Kindred Products	79	
Chemicals & Allied Products	46	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	1	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	72	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		37
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		475

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.